



Melinda S. Giftos

Tips for Successfully Using Open Source Software

by Melinda S. Giftos

While the vast majority of software developed today is proprietary, closed-source software, there are a growing number of developers and companies who use and/or distribute open source software (OSS). OSS can be highly desirable because it is generally easier for developers to use free, well-documented programs than it is to undertake the required time and expense involved in recreating them. This is particularly true when the open source programs, libraries or components perform common functionality.

What is Open Source Software?

The “open source” movement began in the 1980s as the computer software industry was emerging. Because software development had become highly proprietary and secretive rather than an open, cooperative process, the Free Software Foundation was founded with the intention of fostering creativity, compatibility and innovation by sharing source code. Many popular and successful programs have been and continue to be created under the open source movement. The basic principle behind OSS is that source code should always be distributed with the software so that others can build upon and improve the programming. The OSS concept is “viral” in that any other programming that modifies or contains OSS must also be provided as open source.

Common Misperceptions

All too often, people mistakenly believe OSS is in the public domain and may be used without restriction. However, OSS is copyright protected and is typically subject to express license terms. OSS licenses commonly exclude certain traditional copyright protections, such as the right to use, modify and distribute the software. This practice is referred to as “copyleft.” However, these

license agreements also contain other important restrictions and requirements that users must adhere to.

Legal Implications Involved with OSS

There are always risks and requirements involved in attaining proper compliance with OSS license agreements. In general, there are a handful of standard OSS license agreements, such as the GNU General Public License. There are also more custom agreements prepared by the developers. Almost universally, however, OSS license agreements require users of OSS to distribute their own source code along with any programs which modify or incorporate the OSS. They also sometimes limit the end-user’s ability to charge customers for software that includes OSS and/or require specific notice requirements to be added to the program. These agreements, however, are often confusing and the requirement to provide source code only arises under certain circumstances. For example, source code often does not have to be provided to others if the application incorporating the OSS is used in-house only rather than distributing the application to third parties. This can create an interesting and sometimes complex interplay when used in the software-as-a-service model where software is provided to end users, but complete copies are not distributed to them. In addition, many licenses do not require source code distribution when the OSS is “aggregated” with proprietary software rather than “modified” or integrated. There is no clear line, however, on when an OSS program is sufficiently modified or integrated to trigger the source code disclosure requirement. Further, many developers create programs with the hope of ultimately selling the program to an outside company. If the program contains OSS, the later sale may trigger disclosure requirements the developer had not considered, which could

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Caveat Inventor: Collaboration Agreements May Entail the Present Assignment of Future Inventions

by W. David Shenk

Inventions flow from research and the research process is often a collaborative one. Sometimes the collaboration involves multiple institutions and companies. One institution may require researchers from another to enter into a formal written agreement prior to granting access to facilities or proprietary data. Such an agreement may, however, dictate much more than merely terms of access. It may constitute a present assignment of future inventions. The time to consider the implications of this kind of agreement is when it is first presented, not years later, after a patent has issued.

The recent case of *Board of Trustees of Leland Stanford Junior University v. Roche Molecular Systems*, 583 F.3d 832 (Fed. Cir. 2009), illustrates the perils of failing to appreciate the full scope of access agreements and their potential significance. In the late 1980s, Professor Mark Holodniy and his team at Stanford began researching new ways of detecting the HIV virus. One of their avenues of research involved polymerase chain reaction (PCR) techniques. A PCR technique is a biochemical technique enabling the amplification and measurement of small quantities of nucleic acid. Holodniy learned PCR techniques at Cetus, a company with experience in PCR techniques and a collaborator with Stanford.

At Cetus, Holodniy was presented with a “Visitor’s Confidentiality Agreement.” The agreement stated that Holodniy would “assign and does assign to Cetus my right, title, and interest in each of the ideas, inventions and improvements” that he might devise “as a consequence of” his work at Cetus. Stanford was apparently unaware of the Visitor’s Confidentiality Agreement and the fact that Holodniy signed it.

Holodniy and his team’s work was ultimately successful and in 1992 Stanford filed the first of three related patent applications directed to a PCR technique for detecting HIV. Holodniy and other members of his research team were named as inventors. Three patents ultimately issued, all of which were assigned to Stanford.

However, in 1991, biotech company Roche had acquired Cetus’ PCR business, including its agreements with Stanford and its researchers, such as the “Visitor’s Confidentiality Agreement” signed years before by Holodniy. As a result, Roche had acquired Holodniy’s inventorship interest in Stanford’s PCR technique patents. This fact was lost on Stanford, which years later, in 2000, approached Roche, now making and selling an HIV detection kit utilizing a PCR technique, with an offer to license Stanford’s patented PCR technique.

Stanford and Roche engaged in licensing negotiations for years. By 2005, though, negotiations broke down and Stanford sued Roche, alleging Roche’s HIV detection kits infringed Stanford’s PCR technique patents. Roche counterclaimed against Stanford

and Holodniy, alleging that it, Roche, owned Holodniy’s inventorship interest in the patents and therefore that Stanford lacked standing to sue.

Stanford was unable to establish ownership of Holodniy’s interest in the patents and therefore was held at the appellate level to lack standing to assert its claims of infringement against Roche. As the Federal Circuit explained, “The chain of title to Holodniy’s rights leads to Roche, leaving Stanford with defective title to the rights of all the inventors. Stanford’s inability to establish that it possessed Holodniy’s interest in the patents-in-suit defeats its right to assert its cause of action against Roche. It is well settled that ‘all co-owners normally must join as plaintiffs in an infringement suit.’” The Federal Circuit sent the case back to the district court with instructions to dismiss Stanford’s infringement claims for lack of standing.



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Lessons Learned

The most obvious lesson of this case is the importance of knowing what your people are signing. As the Federal Circuit explained, an organization can be charged with notice of its employees’ assignments, such as Holodniy’s to Cetus. Stanford should have inquired what if any agreements its researchers would be asked to enter into in exchange for access at Cetus *before* anyone signed anything. It may have been possible to negotiate a different arrangement while still gaining access to Cetus’ facilities and expertise.

This case also illustrates the importance in litigation of pleading in the alternative. The district court held Roche’s counterclaim for a judgment on its ownership claim was brought too late under the applicable statute of limitations. Roche had, however, pled its ownership interest in the patents both affirmatively *and* as a defense. A defense may be raised at any time, even if the matter alleged is barred by a statute of limitations when asserted as the basis for affirmative relief. Roche’s ownership claim in the patents-in-suit, while time-barred as a counterclaim, nevertheless functioned as an affirmative defense to which the statute of limitations was irrelevant. It was this defense that ultimately deprived Stanford of standing to sue.

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Technology Transfers Involving Nonprofit Organizations: Special Tax Considerations

by Douglas A. Pessefall

Many larger nonprofit research institutions have offices that are devoted to the transfer, development and commercialization of intellectual property, such as patents and copyrights. In today's regulatory environment, however, the activities of nonprofit organizations (in particular, colleges and universities) are being closely scrutinized by the Internal Revenue Service (IRS) and other state and federal government agencies. For example, in 2008, the IRS mailed compliance questionnaires to more than 400 colleges and universities to identify the types and amount of revenue generated by various activities, management and governance practices, and other areas that may be ripe for future compliance efforts. The survey of colleges and universities serves as one additional example of the growing emphasis on nonprofit governance.

Against this backdrop, nonprofit organizations that are engaged in technology transfer activities (and their commercial partners) should keep in mind some of the special tax considerations that may arise in connection with incoming and outgoing transfers of intellectual property.

Incoming Transfers

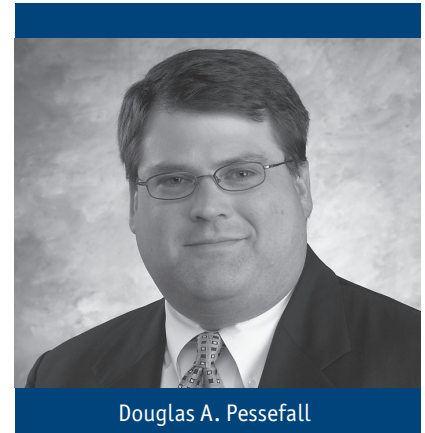
An "incoming" technology transfer is one in which the nonprofit organization creates or receives intellectual property. First, the nonprofit organization may create the intellectual property through the efforts of its employees, with whom it may have agreements governing the ownership of the resulting invention or other intellectual property or a formal written policy. Frequently the tax issue in such cases is the character of the resulting payments to the employee—not only whether the employee's pre-invention compensation is reasonable (as required under the Internal Revenue Code), but also whether any post-invention payments

should be characterized as (1) wages that are subject to the usual tax reporting and withholding requirements; (2) royalties that are subject to tax reporting but no withholding requirements; or (3) long-term capital gains that may not be subject to tax reporting or withholding. Furthermore, some organizations may "purchase" the property from the employee with the award of stock or an ownership interest in a licensee company, which may raise issues with respect to the timing and value of the payment for tax purposes.

Second, a nonprofit organization may receive or accept a gift of intellectual property, in which case the donor may be looking to claim a charitable deduction for the value of the property and/or a charitable deduction for the income produced by the property in a subsequent year. In such cases, the organization should have in place a gift acceptance policy that expressly prohibits the organization from placing a value on or endorsing the donor's claimed value of the gift (even where the donor provides the organization with a copy of a qualified appraisal). Rather, the organization should merely acknowledge receipt of the property (usually on a Form 8283), by describing the property contributed and any limitations on the organization's use of the property. In addition, the organization may be required to report to the IRS any income produced by the property in subsequent years so that those figures can be matched with any additional deductions claimed by the donor (usually on a Form 8899).

Outgoing Transfers

An "outgoing" technology transfer is one in which the nonprofit organization sells or licenses intellectual property to a third party. Such transfers may raise private inurement and unrelated business income tax issues. First, a nonprofit organization's sale or license of intellectual property to a disqualified



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person (e.g., significant contributors, directors, officers and their families or related businesses) at less than the property's fair market value may run afoul of the Code's prohibitions on private inurement and private benefit, and trigger significant penalties. The penalties can be severe—the organization's tax exempt status could be revoked and/or excise taxes of up to 200% of the "excess benefit" could be imposed on a disqualified person and an excise tax of up to 10% of the excess benefit could be imposed on the organization's managers. An "excess benefit" is generally the amount by which the value of the property or rights conferred exceeds the payment received.

Second, nonprofit organizations should ensure that any license agreements properly distinguish or allocate payments between non-taxable royalties and taxable unrelated business income. The need to make this distinction would typically arise when an organization provides some sort of ongoing maintenance or service to the licensee in connection with the license of the intellectual property. To the extent that the organization is providing such services, the organization should take care to track any expenses incurred in connection with the performance of those services so that those expenses can be allocated to the income realized.

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dramatically affect the value of the software. Unfortunately, there is scant legal guidance to assist in deciphering these principles and there are numerous situations under which complexities can arise. It is therefore critical to be aware of the terms of any license agreements prior to incorporating OSS.

Tips for Successfully Using OSS

OSS can be a great tool for developers and companies if used appropriately. The best way to manage use of OSS is to implement a company-wide OSS policy which includes the following:

1. Always fully document all third-party software used or incorporated in your programs.
2. Always thoroughly review OSS license agreements to ensure proper compliance prior to using the OSS.
3. Always incorporate any necessary notice requirements within your program, even if used only internally, so if later distributed or sold, the required notices are in place.
4. Consider taking steps to “unlink” the OSS from the remaining portion of your program to decrease the chances that the OSS license will also apply to distribution of your software program.
5. Always consider potential liability with third-party licensees, as OSS typically provides no warranties and expressly disclaims intellectual property infringement liability.
6. Always consult an attorney if you have any questions or concerns with use of OSS.

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For more information about the tax implications of technology transfers involving nonprofit organizations, please contact Doug Pessefall at (414) 978-5534 or dpeessefall@whdlaw.com, or another member of the Intellectual Property or Tax Exempt Organizations practice groups.

UPCOMING SEMINARS

INTELLECTUAL PROPERTY FOR INNOVATIONS CREATED WITH FEDERAL GRANTS

Date: Tuesday, January 26, 2010
Time: 8:00 - 9:00 a.m.

STAYING AHEAD OF THE LEGAL CURVE WHEN CREATING & BUILDING AN INTERNET PRESENCE

Date: Tuesday, February 16, 2010
Time: 8:00 - 9:00 a.m.

Please visit www.whdlaw.com/events.aspx for more details and registration information.

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